
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 4, 2021



Energy Recovery, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

001-34112
(Commission File Number)

01-0616867
(I.R.S. Employer Identification No.)

1717 Doolittle Dr., San Leandro, CA 94577
(Address of Principal Executive Offices) (Zip Code)

510-483-7370
(Registrant's telephone number, including area code)

Not applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|---|-----------------------|--|
| Common Stock, \$0.001 par value per share | ERII | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On November 4, 2021, Energy Recovery, Inc. issued an earnings press release announcing its financial results for the third quarter and nine months ended September 30, 2021. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference in its entirety.

The information in this report (including Exhibit 99.1) is being furnished pursuant to Item 2.02 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 99.1 | Press release of Energy Recovery, Inc. dated November 4, 2021 to report its financial results for its third quarter ended September 30, 2021 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 4, 2021

Energy Recovery, Inc.

By: /s/ William Yeung
William Yeung
Chief Legal Officer



Energy Recovery Reports Third Quarter Financial Results

SAN LEANDRO, Calif. - November 4, 2021 - Energy Recovery, Inc. (Nasdaq: ERII) today announced its financial results for the third quarter ended September 30, 2021.

“2021 is playing out as expected, and we are well positioned to end the year in record fashion. Our desalination business continues to demonstrate strength, and we are building our pipeline of new industrial wastewater orders, two sides of our commitment to helping to address the growing global need for freshwater. We believe the solution to the rapidly increasing freshwater gap requires both increasing supply and better stewardship of water we already have,” said Robert Mao, Chairman of the Board, President and Chief Executive Officer of Energy Recovery.

Mr. Mao continued, “Beyond water, our growth initiative in refrigeration is gaining strong momentum. We have had many fruitful conversations with U.S. and international grocery chains, and have recently signed an agreement to install our PX G1300 energy recovery device in a Vallarta Supermarkets grocery store in California, and signed a letter of intent with another chain in Europe. In addition, we are in discussions with multiple refrigeration manufacturers to help design the next generation of CO₂ refrigeration systems featuring our PX G1300 technology at its core. We believe our PX G1300 has the potential to maximize the savings offered by this next generation system, thus transforming the multi-billion dollar refrigeration market by making CO₂ refrigeration systems more financially attractive versus incumbent CO₂ solutions.”

Financial Results

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|---|----------|----------|---------------------------------|----------|-----------|
| | 2021 | 2020 | Variance | 2021 | 2020 | Variance |
| | <i>(In millions, except net income per share, percentages and basis points)</i> | | | | | |
| Product revenue | \$ 20.8 | \$ 27.4 | (24%) | \$ 70.3 | \$ 65.7 | 7% |
| License and development revenue ⁽¹⁾ | — | — | —% | — | 26.9 | (100%) |
| Total revenue | \$ 20.8 | \$ 27.4 | (24%) | \$ 70.3 | \$ 92.6 | (24%) |
| Product gross profit | \$ 14.7 | \$ 19.6 | (25%) | \$ 48.1 | \$ 45.6 | 5% |
| Product gross margin | 70.6 % | 71.5 % | (90) bps | 68.4 % | 69.5 % | (110) bps |
| Operating expense | \$ 13.3 | \$ 13.5 | (2%) | \$ 40.2 | \$ 45.0 | (11%) |
| Operating income | \$ 1.4 | \$ 6.1 | (77%) | \$ 7.9 | \$ 27.5 | (71%) |
| Net income | \$ 1.1 | \$ 5.4 | (80%) | \$ 9.0 | \$ 22.9 | (61%) |
| Diluted net income per share | \$ 0.02 | \$ 0.10 | (0.08) | \$ 0.15 | \$ 0.41 | (0.26) |
| Operating cash flow | \$ (4.2) | \$ 10.6 | (14.9) | \$ 7.3 | \$ 10.4 | (3.1) |
| Cash and investments | \$ 108.4 | \$ 105.9 | 2% | \$ 108.4 | \$ 105.9 | 2% |

⁽¹⁾ In June 2020, the Company terminated the VorTeq License Agreement with Schlumberger Technology Corporation. As there were no future performance obligations to be recognized under the VorTeq License Agreement after the effective date, the Company recognized in full the remaining deferred revenue balance of \$24.4 million in the second quarter of fiscal year 2020. In addition, no future license and development revenue was recognized under the VorTeq License Agreement after the second quarter of fiscal year 2020.

Product Channel Revenue

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------|--|----------------|----------|---------------------------------|----------------|----------|
| | 2021 | 2020 | Variance | 2021 | 2020 | Variance |
| | <i>(In millions, except percentages)</i> | | | | | |
| Megaproject | \$ 13.3 | \$ 20.7 | (36%) | \$ 50.3 | \$ 47.2 | 7% |
| Original equipment manufacturer | 4.8 | 4.1 | 19% | 11.9 | 11.7 | 2% |
| Aftermarket | 2.7 | 2.6 | 2% | 8.1 | 6.8 | 19% |
| Total product revenue | <u>\$ 20.8</u> | <u>\$ 27.4</u> | (24%) | <u>\$ 70.3</u> | <u>\$ 65.7</u> | 7% |

“We remain on track to finish our year with strong revenue results as we have guided since October last year, with the fourth quarter expected to be a historic revenue quarter,” said Joshua Ballard, Chief Financial Officer of Energy Recovery. “While we are not immune to the ongoing global supply chain crisis and inflationary pressures, our team began preparing for this eventuality last year. We are in a strong position as we look to 2022 in our ability to both manufacture and deliver products to our customers. We continued to invest in increased levels of raw materials and finished goods to mitigate, or even avoid, exogenous shocks. Cash and security balances remain high due to our lower spend and strong collections even while executing over \$21 million in cumulative share buybacks through the end of October.”

Third Quarter 2021 Business Highlights

Water Segment

1. Product revenue of \$20.8 million was in-line with management’s guidance. We continued to experience rebounding sales in the original equipment manufacturer channel and saw growth in the aftermarket channel. The megaproject channel saw an expected decrease but is projected to rebound strongly in the fourth quarter.
2. A sixth purchase order was received in our industrial wastewater business, further strengthening our first full year in this market.
3. Our gross margin increased to 70.6% from our low in the second quarter. We have largely avoided raw material cost increases due to our timely build up of raw material inventory starting in 2020, as well as internal cost optimization efforts.

Emerging Technologies Segment

1. Our outreach efforts in the commercial refrigeration space have generated a positive response from industry leaders. In late October, we entered into an agreement to deploy the PX G1300 in a grocery store in California. We are targeting first commercial deployments of the PX G1300 in the first half of 2022.
2. During the quarter, we joined the North American Sustainable Refrigeration Council (the “NASRC”). The NASRC is an action-oriented non-profit charity, as defined under the U.S. Internal Revenue Code 501(c)(3), working in partnership with the supermarket industry to create a climate-friendly future for refrigeration by eliminating the barriers to natural refrigerant adoption in supermarkets. Natural refrigerants, such as CO₂, have near-zero Global Warming Potential (“GWP”), making it the safest climate-friendly alternative to hydrofluorocarbons which have a GWP into the thousands.
3. Operating expenses in this segment decreased quarter-over-quarter, due primarily to reduced research and development expenditures related to the VorTeq.

Bottom Line Summary

On a quarterly basis, we reported a net income of \$1.1 million, or \$0.02 per diluted share, for the third quarter ended September 30, 2021, compared to a net income of \$5.4 million, or \$0.10 per diluted share, for the third quarter ended September 30, 2020.

Cash Flow Highlights

The Company finished the first quarter ended September 30, 2021 with cash and cash equivalents of \$65.7 million, and short-term and long-term investments of \$42.7 million, which represents a combined total of \$108.4 million.

Forward-Looking Statements

Certain matters discussed in this press release and on the conference call are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including the Company’s belief that the Company’s PX G1300 has the potential to maximize the savings offered by the next generation CO₂ system; that the Company’s technology can transform the multi-billion dollar refrigeration market by making CO₂ refrigeration systems more financially attractive versus incumbent CO₂ solutions; the Company’s belief that the fourth quarter revenue will be historic and that the Company will meet its revenue guidance; the Company’s belief that the Company will be able to manufacture and deliver products to its customers in 2022; and the Company’s expectation that the Company will deploy its PX G1300 in the first half of 2022. These forward-looking statements are based on information currently available to us and on management’s beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Potential risks and uncertainties include any other factors that may have been discussed herein regarding the risks and uncertainties of the Company’s business, and the risks discussed under “Risk Factors” in the Company’s Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) for the year ended December 31, 2020, as well as other reports filed by the Company with the SEC from time to time. Because such forward-looking statements involve risks and uncertainties, the Company’s actual results may differ materially from the predictions in these forward-looking statements. All forward-looking statements are made as of today, and the Company assumes no obligation to update such statements.

Conference Call to Discuss Third Quarter 2021 Financial Results

LIVE CONFERENCE CALL:

Thursday, November 4, 2021, 2:00 PM PDT / 5:00 PM EDT

Listen-only, US / Canada Toll-Free: +1 (877) 709-8150

Listen-only, Local / International Toll: +1 (201) 689-8354

Access code: 13722959

CONFERENCE CALL REPLAY:

Expiration: Saturday, December 4, 2021

US / Canada Toll-Free: +1 (877) 660-6853

Local / International Toll: +1 (201) 612-7415

Access code: 13722959

Investors may also access the live call or the replay over the internet at ir.energyrecovery.com. The replay will be available approximately three hours after the live call concludes.

Disclosure Information

Energy Recovery uses the investor relations section on its website as means of complying with its disclosure obligations under Regulation FD. Accordingly, investors should monitor Energy Recovery’s investor relations website in addition to following Energy Recovery’s press releases, SEC filings, and public conference calls and webcasts.

About Energy Recovery

Energy Recovery creates technologies that solve complex challenges for industrial fluid-flow markets worldwide. Building on our pressure exchanger technology platform, we design and manufacture solutions that make industrial processes more efficient and sustainable. What began as a game-changing invention for desalination has grown into a global business accelerating the environmental sustainability of customers’ operations in multiple industries. Headquartered in the San Francisco Bay Area, Energy Recovery has manufacturing, research and development facilities across California and Texas with sales and on-site technical support available globally. For more information, please visit www.energyrecovery.com.

Contact

Investor Relations

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+1 (281) 962-8105

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2021 | December 31, 2020 |
|---|-------------------------------|------------------------------|
| <i>(In thousands)</i> | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 65,745 | \$ 94,255 |
| Short-term investments | 41,900 | 20,446 |
| Accounts receivable, net | 13,066 | 11,792 |
| Inventories, net | 20,557 | 11,748 |
| Prepaid expenses and other assets | 5,541 | 4,950 |
| Total current assets | 146,809 | 143,191 |
| Long-term investments | 765 | — |
| Deferred tax assets, net | 12,093 | 11,030 |
| Property and equipment, net | 20,905 | 20,176 |
| Operating lease, right of use asset | 15,021 | 16,090 |
| Goodwill and other intangible assets | 12,830 | 12,839 |
| Other assets | 365 | 988 |
| Total assets | \$ 208,788 | \$ 204,314 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,663 | \$ 1,118 |
| Accrued expenses and other liabilities | 9,582 | 11,816 |
| Lease liabilities | 1,518 | 1,243 |
| Contract liabilities | 1,452 | 1,552 |
| Total current liabilities | 16,215 | 15,729 |
| Lease liabilities | 15,284 | 16,443 |
| Other liabilities | 550 | 518 |
| Total liabilities | 32,049 | 32,690 |
| Stockholders' equity: | | |
| Common stock | 63 | 62 |
| Additional paid-in capital | 192,564 | 179,161 |
| Accumulated other comprehensive (loss) income | (86) | 53 |
| Treasury stock | (47,642) | (30,486) |
| Retained earnings | 31,840 | 22,834 |
| Total stockholders' equity | 176,739 | 171,624 |
| Total liabilities and stockholders' equity | \$ 208,788 | \$ 204,314 |

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-----------------|---------------------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | <i>(In thousands, except per share data)</i> | | | |
| Product revenue | \$ 20,781 | \$ 27,408 | \$ 70,328 | \$ 65,665 |
| Product cost of revenue | 6,089 | 7,816 | 22,251 | 20,049 |
| Product gross profit | <u>14,692</u> | <u>19,592</u> | <u>48,077</u> | <u>45,616</u> |
| License and development revenue | — | — | — | 26,895 |
| Operating expenses: | | | | |
| General and administrative | 5,851 | 6,271 | 18,632 | 18,751 |
| Sales and marketing | 2,996 | 2,141 | 8,236 | 5,776 |
| Research and development | 4,416 | 5,098 | 13,342 | 18,159 |
| Amortization of intangible assets | 2 | 4 | 9 | 12 |
| Impairment of long-lived assets | — | — | — | 2,332 |
| Total operating expenses | <u>13,265</u> | <u>13,514</u> | <u>40,219</u> | <u>45,030</u> |
| Income from operations | <u>1,427</u> | <u>6,078</u> | <u>7,858</u> | <u>27,481</u> |
| Other income (expense): | | | | |
| Interest income | 36 | 134 | 179 | 809 |
| Other non-operating (expense) income, net | 1 | (29) | (21) | (59) |
| Total other income, net | <u>37</u> | <u>105</u> | <u>158</u> | <u>750</u> |
| Income before income taxes | 1,464 | 6,183 | 8,016 | 28,231 |
| (Benefit from) provision for income taxes | 393 | 796 | (990) | 5,297 |
| Net income | <u>\$ 1,071</u> | <u>\$ 5,387</u> | <u>\$ 9,006</u> | <u>\$ 22,934</u> |
| Net income per share: | | | | |
| Basic | \$ 0.02 | \$ 0.10 | \$ 0.16 | \$ 0.41 |
| Diluted | \$ 0.02 | \$ 0.10 | \$ 0.15 | \$ 0.41 |
| Number of shares used in per share calculations: | | | | |
| Basic | 57,026 | 55,692 | 57,053 | 55,573 |
| Diluted | 58,709 | 56,471 | 58,785 | 56,443 |

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended September 30, | |
|--|---------------------------------|------------------|
| | 2021 | 2020 |
| | <i>(In thousands)</i> | |
| Cash flows from operating activities: | | |
| Net income | \$ 9,006 | \$ 22,934 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities | | |
| Stock-based compensation | 4,574 | 3,672 |
| Depreciation and amortization | 4,141 | 3,963 |
| Amortization of premiums and discounts on investments | 340 | 311 |
| Deferred income taxes | (1,063) | 5,443 |
| Impairment of long-lived assets | — | 2,332 |
| Other non-cash adjustments | 161 | 316 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (1,274) | 1,862 |
| Contract assets | 1,892 | (747) |
| Inventories, net | (8,874) | (506) |
| Prepaid and other assets | (1,097) | 295 |
| Accounts payable | 2,739 | 656 |
| Accrued expenses and other liabilities | (3,132) | (2,579) |
| Contract liabilities | (119) | (27,602) |
| Net cash provided by operating activities | <u>7,294</u> | <u>10,350</u> |
| Cash flows from investing activities: | | |
| Sales of marketable securities | — | 10,573 |
| Maturities of marketable securities | 20,686 | 50,467 |
| Purchases of marketable securities | (43,339) | (12,855) |
| Capital expenditures | (4,899) | (6,019) |
| Other | 5 | — |
| Net cash (used in) provided by investing activities | <u>(27,547)</u> | <u>42,166</u> |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock | 8,939 | 1,260 |
| Tax payment for employee shares withheld | — | (23) |
| Repurchase of common stock | (17,156) | — |
| Net cash (used in) provided by financing activities | <u>(8,217)</u> | <u>1,237</u> |
| Effect of exchange rate differences on cash and cash equivalents | (40) | 11 |
| Net change in cash, cash equivalents and restricted cash | (28,510) | 53,764 |
| Cash, cash equivalents and restricted cash, beginning of year | 94,358 | 26,488 |
| Cash, cash equivalents and restricted cash, end of period | <u>\$ 65,848</u> | <u>\$ 80,252</u> |

ENERGY RECOVERY, INC.
SUPPLEMENTAL FINANCIAL INFORMATION

(Unaudited)

Three Months Ended September 30, 2021 **Three Months Ended September 30, 2020 (Recast)**

| | Three Months Ended September 30, 2021 | | | | Three Months Ended September 30, 2020 (Recast) | | | |
|-----------------------------------|--|------------------------------|------------------|--------------|---|------------------------------|------------------|--------------|
| | Water | Emerging Technologies | Corporate | Total | Water | Emerging Technologies | Corporate | Total |
| | <i>(In thousands)</i> | | | | | | | |
| Product revenue | \$ 20,767 | \$ 14 | \$ — | \$ 20,781 | \$ 27,408 | \$ — | \$ — | \$ 27,408 |
| Product cost of revenue | 6,089 | — | — | 6,089 | 7,816 | — | — | 7,816 |
| Product gross profit | 14,678 | 14 | — | 14,692 | 19,592 | — | — | 19,592 |
| Operating expenses | | | | | | | | |
| General and administrative | 1,435 | 1,373 | 3,043 | 5,851 | 2,371 | 1,359 | 2,541 | 6,271 |
| Sales and marketing | 2,250 | 327 | 419 | 2,996 | 1,507 | 327 | 307 | 2,141 |
| Research and development | 762 | 3,654 | — | 4,416 | 723 | 4,375 | — | 5,098 |
| Amortization of intangible assets | 2 | — | — | 2 | 4 | — | — | 4 |
| Total operating expenses | 4,449 | 5,354 | 3,462 | 13,265 | 4,605 | 6,061 | 2,848 | 13,514 |
| Operating income (loss) | \$ 10,229 | \$ (5,340) | \$ (3,462) | 1,427 | \$ 14,987 | \$ (6,061) | \$ (2,848) | 6,078 |
| Other income, net | | | | 37 | | | | 105 |
| Income before income taxes | | | | \$ 1,464 | | | | \$ 6,183 |

Nine Months Ended September 30, 2021 **Nine Months Ended September 30, 2020 (Recast)**

| | Nine Months Ended September 30, 2021 | | | | Nine Months Ended September 30, 2020 (Recast) | | | |
|-----------------------------------|---|------------------------------|------------------|--------------|--|------------------------------|------------------|--------------|
| | Water | Emerging Technologies | Corporate | Total | Water | Emerging Technologies | Corporate | Total |
| | <i>(In thousands)</i> | | | | | | | |
| Product revenue | \$ 70,275 | \$ 53 | \$ — | \$ 70,328 | \$ 65,665 | \$ — | \$ — | \$ 65,665 |
| Product cost of revenue | 22,251 | — | — | 22,251 | 20,049 | — | — | 20,049 |
| Product gross profit | 48,024 | 53 | — | 48,077 | 45,616 | — | — | 45,616 |
| License and development revenue | — | — | — | — | — | 26,895 | — | 26,895 |
| Operating expenses | | | | | | | | |
| General and administrative | 4,768 | 3,854 | 10,010 | 18,632 | 6,417 | 4,001 | 8,333 | 18,751 |
| Sales and marketing | 6,535 | 735 | 966 | 8,236 | 4,307 | 901 | 568 | 5,776 |
| Research and development | 1,858 | 11,484 | — | 13,342 | 2,585 | 15,574 | — | 18,159 |
| Amortization of intangible assets | 9 | — | — | 9 | 12 | — | — | 12 |
| Impairment of long-lived assets | — | — | — | — | — | 2,332 | — | 2,332 |
| Total operating expenses | 13,170 | 16,073 | 10,976 | 40,219 | 13,321 | 22,808 | 8,901 | 45,030 |
| Operating income (loss) | \$ 34,854 | \$ (16,020) | \$ (10,976) | 7,858 | \$ 32,295 | \$ 4,087 | \$ (8,901) | 27,481 |
| Other income, net | | | | 158 | | | | 750 |
| Income before income taxes | | | | \$ 8,016 | | | | \$ 28,231 |